ISSN 0542—5492

Second Session — Thirty-Second Legislature

of the

Legislative Assembly of Manitoba

STANDING COMMITTEE

on

ECONOMIC DEVELOPMENT

31-32 Elizabeth II

Chairman
Mr. G. Lecuyer
Constituency of Radisson

MG-8048

VOL. XXXI No. 4 - 10:00 a.m., THURSDAY, 26 MAY, 1983.

Printed by the Office of the Queens Printer, Province of Manitoba

MANITOBA LEGISLATIVE ASSEMBLY
Thirty-Second Legislature

Members, Constituencies and Political Affiliation

Name	Constituency	Party
ADAM, Hon. A.R. (Pete)	Ste. Rose	NDP
ANSTETT, Andy	Springfield	NDP
ASHTON, Steve	Thompson	NDP
BANMAN, Robert (Bob)	La Verendrye	PC
BLAKE, David R. (Dave)	Minnedosa	PC
BROWN, Arnold	Rhineland	PC
BUCKLASCHUK, Hon. John M.	Gimli	NDP
CARROLL, Q.C., Henry N.	Brandon West	IND
CORRIN, Brian	Ellice	NDP
COWAN, Hon. Jay	Churchill	NDP
DESJARDINS, Hon. Laurent	St. Boniface	NDP
DODICK, Doreen	Riel	NDP
DOERN, Russell	Elmwood	NDP
DOLIN, Hon. Mary Beth	Kildonan	NDP
DOWNEY, James E.	Arthur	PC
DRIEDGER, Albert	Emerson	PC
ENNS, Harry	Lakeside	PC
EVANS, Hon. Leonard S.	Brandon East	NDP
EYLER, Phil	River East	NDP
FILMON, Gary	Tuxedo	PC
FOX, Peter	Concordia	NDP
GOURLAY, D.M. (Doug)	Swan River	PC
GRAHAM, Harry	Virden	PC
HAMMOND, Gerrie	Kirkfield Park	PC
HARAPIAK, Harry M.	The Pas	NDP
HARPER, Elijah	Rupertsland	NDP
HEMPHILL, Hon. Maureen	Logan	NDP
HYDE, Lloyd	Portage la Prairie	PC
JOHNSTON, J. Frank	Sturgeon Creek	PC
KOSTYRA, Hon. Eugene	Seven Oaks	NDP
KOVNATS, Abe	Niakwa	PC
LECUYER, Gérard	Radisson	NDP
LYON, Q.C., Hon. Sterling	Charleswood	PC
MACKLING, Q.C., Hon. Al	St. James	NDP
MALINOWSKI, Donald M.	St. Johns	NDP
MANNESS, Clayton	Morris	PC
McKENZIE, J. Wally	Roblin-Russell	PC
MERCIER, Q.C., G.W.J. (Gerry)	St. Norbert	PC
NORDMAN, Rurik (Ric)	Assiniboia	PC
OLESON, Charlotte	Gladstone	PC
ORCHARD, Donald	Pembina	PC
PAWLEY, Q.C., Hon. Howard R.	Selkirk	NDP
PARASIUK, Hon. Wilson	Transcona	NDP
PENNER, Q.C., Hon. Roland	Fort Rouge	NDP
PHILLIPS, Myrna A.	Wolseley	NDP
PLOHMAN, Hon. John	Dauphin	NDP
RANSOM, A. Brian	Turtle Mountain	PC
SANTOS, Conrad	Burrows	NDP
SCHROEDER, Hon. Vic	Rossmere	NDP
SCOTT, Don	Inkster	NDP
SHERMAN, L.R. (Bud)	Fort Garry	PC
SMITH, Hon. Muriel	Osborne	NDP
STEEN, Warren	River Heights	PC
STORIE, Hon. Jerry T.	Flin Flon	NDP
URUSKI, Hon. Bill	Interlake	NDP
USKIW, Hon. Samuel	Lac du Bonnet	NDP
WALDING, Hon. D. James	St. Vital	NDP

LEGISLATIVE ASSEMBLY OF MANITOBA

THE STANDING COMMITTEE ON ECONOMIC DEVELOPMENT

Thursday, 26 May, 1983

TIME — 10:00 a.m.

LOCATION — Winnipeg

CHAIRMAN — Mr. G. Lecuyer (Radisson)

ATTENDANCE — QUORUM - 6

Members of the Committee present:

Hon. Messrs. Cowan, Evans and Parasiuk, Hon. Mrs. Smith, Messrs. Banman, Brown, Doern, Filmon, Harper, Johnston, Lecuyer, Scott

APPEARING: Persons appearing on behalf of McKenzie Steele Briggs Seeds Ltd.:

Mr. J.A. Petrie, Acting Chairman of the Board

Mr. W.A. Moore, President and General Manager

Mr. Hugh Jones, Chairman of MDC

Persons appearing on behalf of Manitoba Development Corporation:

Mr. Hugh Jones, Chairman and General Manager

Mr. Alex Y. Musgrove, Assistant General Manager

Mr. G. Goodwin, Secretary-Treasurer

MATTERS UNDER DISCUSSION:

Annual Reports of McKenzie Steele Briggs Seeds, Manitoba Development Corporation, William Clare (Manitoba) Ltd.

* * * *

McKENZIE STEELE BRIGGS SEEDS LTD.

MR. CHAIRMAN: Committee will come to order. The Committee of Economic Development will begin this morning with the report from the McKenzie Seeds Company. Mr. Minister, do you wish to make any opening statements?

HON. L. EVANS: Thank you, Mr. Chairman, and good morning members of the committee. We have with us today two representatives from the McKenzie Steele Briggs Company Ltd., Mr. Joseph Petrie representing the Board; and Mr. William Moore, the President of the company. Also of course, Mr. Hugh Jones of MDC is a senior member on the Board as well and is involved through the mechanism of MDC being a financier, I guess you'd say, of McKenzie Seeds.

I am going to call upon Mr. Petrie to present the report of the company. I would just say that I'm very, very pleased that Mr. Petrie is a member of the board, bringing to us 47 years of experience in merchandising. Mr. Petrie for many years was a senior officer of Merchants Consolidated. I believe he was Senior Vice-President and General Manager of Merchants Consolidated Ltd. of Canada for some many years prior to retirement. So, at this point, I would like to call upon Mr. Petrie to present the Annual Report of McKenzie Steele Briggs Ltd.

MR. CHAIRMAN: Mr. Petrie.

MR. J. PETRIE: Thank you, Mr. Chairman, and Mr. Evans. This is the resume of our operations for the year ending October 31, 1982.

A.E. McKenzie Co. Ltd. ended its 1982 fiscal year reporting a loss of $267,967 after debt-servicing charges of almost $2 million.

During the year, the company again substantially increased its sales. However, with the national economic conditions, many of the company's customers experienced difficult times and as a result the company lost considerable revenue through major bankruptcies, especially in Eastern Canada. In previous years, the company experienced bankruptcy losses of approximately 0.3 percent of its revenues. However, in 1982, these losses amounted to almost 2 percent of the total revenues.

In 1982, the company total sales amounted to $12,943,993 and while there is some concern about the late spring, the 1983 sales are materializing favourably and are estimated to be about $16.5 million by year-end.

In October of 1982, the Government of Manitoba announced a major restructuring of the company's debt financing. Under the terms of this restructuring, which had no effect on the 1982 Financial Statements, the company's debt is now in the form of a 20-year Debenture for $7 million and $5 million in Preferred Shares. This restructuring will allow the company to develop its operations without the continued burden of excessive debt.

In October, 1982, the company purchased the shares of Pike & Co. Ltd., an Alberta seed house. This acquisition allows the company to expand its sales in Northern Alberta especially in the field of direct marketing.

The company continues to improve its position in the marketplace as a supplier of home horticultural products. In 1983, it has expanded its line of products to include such items as rose bushes, seed potatoes and shrubs.

The company's Direct Marketing Division continues to be the area of substantial continued growth. In 1983, this division is expected to experience sales of $4.5 million, an increase of over 100 percent over 1982. This division has just won the top award in the Consumer Catalogue Product Category in the annual Canadian Direct-Mail Marketing Association Competition.

The company continues to provide increasing levels of employment at its Brandon plant. Employment in 1983 will peak at approximately 300 employees with an annual payroll of approximately $3,500,000.00.

That is the summary of the resume of the year's operations.

MR. CHAIRMAN: Thank you. Are there any comments or questions arising?

The Member for Tuxedo.

MR. G. FILMON: Mr. Chairman, I wonder if the chairman could indicate - we've just received the financial statements, and I'm not sure if there are any notes to the financial statements that would indicate this, but is there any interest rate payable on the 20-year debenture or on the $5 million in preferred shares?

MR. CHAIRMAN: Mr. Moore.

MR. W. MOORE: Mr. Chairman, the debenture is an interest bearing debenture that is in an interest rate supposedly equal to the long-term borrowing rate of the Province of Manitoba. What I understand that to mean is actually it's about 1 percentage point higher than what the borrowing rate of the Province of Manitoba is. It's a rate that I understand is set every three months. The $5 million preferred shares have a 6 percent cumulative preferred shares.

MR. CHAIRMAN: Mr. Minister.

HON. L. EVANS: Well, I think specifically the question, if I understood Mr. Filmon properly, was whether the refinancing had any impact on this particular statement.

MR. G. FILMON: No, that's not what I asked.

HON. L. EVANS: No, okay, I thought . . .

MR. G. FILMON: Mr. Chairman, if its a 20-year debenture at $7 million and the rate is pegged to the long term, or I guess it's the long-term borrowing rate of the province, that means that it's floating and it varies approximately every 3 months?

MR. CHAIRMAN: Mr. Moore.

MR. W. MOORE: Yes, that's correct, Mr. Chairman.

MR. G. FILMON: What will the interest costs then be, Mr. Chairman, say for, what are the projected interest costs for this fiscal year under the $7 million 20-year debenture and under this $5 million preferred shares which are 6 percent cumulative, which I assume means that if the company is unable to pay interest, the interest owing accumulates to be paid at a time when the company is able to pay.

MR. W. MOORE: Mr. Chairman, the interest that will be paid this year will be somewhere around $1 million. The preferred shares, of course, are paid out in the form of dividend, really, rather than an interest payment. It would show on the statement as a dividend rather than an interest payment, and it would be in addition to that $1 million.

MR. G. FILMON: The 6 percent is the dividend portion, is that what Mr. Moore said? Yes And the $1 million is the approximate interest projected for this year on the $7 million 20-year debenture.

MR. W. MOORE: Well, in addition, there is some short-term financing at the Bank of Montreal, and $1 million includes the interest costs that would be paid to the bank. It's about six months of the year the company would have to borrow from the bank.

MR. G. FILMON: That compares with interest paid of about $2 million in the previous two years - 1.926 - 1.923 - is that correct?

MR. W. MOORE: That's correct, Mr. Chairman.

MR. G. FILMON: So, Mr. Chairman, in effect, what the government has done is inject $12 million in capital, upon which it will get a return of some $1 million plus possible dividends, and it has relieved the company of an interest burden of about $2 million a year.

MR. W. MOORE: No, Mr. Chairman, the company has not been relieved of an interest burden of $2 million a year. It's been relieved of a portion of its interest burden, but we are still paying interest to the Crown and to the province, so all of the $2 million we were paying before has not been relieved. Probably, they might have relief if you were to sit down and work it out exactly. Somewhere in the region of $600,000 would be transferred from the interest costs and, of course, from that the dividend portion for the preferred charge would have to be paid. So it probably is to the company's benefit; it would be some $400,000 or $500,000.00.

MR. G. FILMON: Mr. Chairman, I wasn't suggesting it was all relieved, because I mentioned that there was a $1 million-plus dividend payment that would have to be made, so it's a difference between the two. But what advantage is there to the taxpayer of Manitoba in this new arrangement? I see the advantage to the company, and that is that it relieves it of perhaps a half million dollars of interest every year.

MR. CHAIRMAN: Mr. Minister.

HON. L. EVANS: The advantage basically is that I think we are sustaining a viable company, which for years to come, hopefully, will provide not only a repayment of the loan, but will also in years ahead provide us with some dividends on our shares; and, of course, there are the auxiliary benefits whereby we pay taxes to the City of Brandon, we pay other various taxes to the province, and whereby having a large payroll of 300 at the peak of the season, there are benefits that should be obvious.

I would think that the best question asked is: Well, what benefit is it to the economy of Manitoba? I think there's a substantial benefit in this particular move which incidentally, as I understand, was also recommended through consultants hired by the previous Lyon administration, wherein it was recommended that a refinancing of the company take place.

MR. G. FILMON: Mr. Chairman, with all due respect, I suggest that there's no greater or lesser benefits to the economy of Manitoba if the company is operating with money owing to the government versus if it's operating with money owing to the banks or commercial lending institutions.

The fact of the matter is the company is no less or more viable if the money is now being paid in the form of interest to the government, or if it were being paid previously in the form of interest to a commercial lending institution. The difference is that the taxpayer has now injected an additional $12 million of capital, $7 million of which it is getting an interest rate return equal to that which it is paying out for the money; but the other $5 million, of which it is getting a 6 percent return on, when it's borrowing it at probably double that rate at the present time.

So this is just a little bit of chicanery that's designed to try and make the company look more viable. More so than that, Mr. Chairman, you know as well as I do, that the great tendency will be that if we owe it to ourselves, well, we won't be too concerned if we don't collect it. On the other hand, if we owe it to the banks, then we have to pay it, and we have to show it, and we have to have it evident to everybody and all concerned that that's the kind of money that is going in from the taxpayer in order to support the company.

Now, the best possible position for this company is if it doesn't need any taxpayer's support, if it's viable on its own, on its own situation, on its own workings - and that is the situation that we were endeavouring to do and accomplish in the past - I think we went a long way towards it, to the point that the company was showing a profit even after paying commercial interest rates, and that is a strengthening. I think that this kind of refinancing, where you borrow it from the taxpayer and you don't feel as great an obligation because immediately you begin to justify it by doing as the Minister is doing and talking about the benefits that accrue to the economy of Manitoba, so that you're all of a sudden coming up with a list of justifications why it shouldn't have to operate competitively or viably in the normal marketplace. That's the kind of thing that I think wasn't warranted, and I said so last year, and I repeat it again; that all you're doing is conveniently making the company now less viable and more dependent on government support and more into the taxpayer's pocketbook, and I don't think that the move was justified.

HON. L. EVANS: Well, Mr. Chairman, let me address that, and what the member is questioning is the rationale for refinance ultimately, and I'd like to make a few comments and perhaps members of the staff, maybe Mr. Jones would like to add to them, but the company essentially had been previously in a position of financing long-term growth on the basis of short term relatively expensive debt capital.

The amount involved in the refinancing is partially the result of funding the net accumulated operating deficit of the company. The company had total permanent capital investment of $146,000.00. This goes way back, and with past cash operating losses and a significant growth in sales activity, the company had been obliged to utilize up to 75 percent of its debt structure to fund the growth. You know, so that is simply a lopsided financial arrangement for any company.

Secondly, I'd point out that under the previous arrangements with the Bank of Montreal, the company was paying approximately .25 million more per annum than if the province funded the total current debt, and since the company is 100 percent owned by the province, this additional interest paid out represented a net drain on the Manitoba Treasury.

A third point I would make, and very important, is that under the previous financing arrangement, under the previous situation, the company was severely hampered in developing a flexible long-term market strategy. I think this is something all members of the Assembly would be very interested in and that is to ensure that the company is in a position to grow and to meet the competition because it is a very very competitive business.

The fourth point I would make is that various alternatives were considered, and I think the particular mix of debt and equity that we now have approved has the advantage of increasing the flexibility, recognizing that effective evaluation in the future ought not to be burdened with the ongoing costs of financing the past accumulated deficits.

I think this is a straight business analysis, and I think it was a sound commercial way to go, but I'd like to ask Mr. Jones, the Chairman of MDC if he could perhaps comment further.

MR. CHAIRMAN: Mr. Jones.

MR. H. JONES: Well, Mr. Chairman, I just want to add one comment primarily, that it should be recognized that the province, through MDC, was exposed before this refinancing to the extent of 8.5 million. MDC had a loan to McKenzie under Part 2 of the Act for 3 million, and we were guaranteeing the Bank of Montreal in Brandon 5.5 million. It would seem to me, and I think the McKenzie Board would agree, that if these arrangements had not been made to finance the current year's working capital, for example, there would have been a need to increase the bank debt with a concomitant increase in the provincial guarantee to 9.5 million. I think that might clarify part of the arrangement.

I think the Minister has covered the points that I was going to add on in terms of the rationale.

MR. CHAIRMAN: The Member for Tuxedo.

MR. G. FILMON: Mr. Chairman, I just wanted to say that I have no difficulty with consolidating debts. I have no difficulty with financing debts for the operation of the company on a long-term basis as opposed to more expensive short-term money. The difficulty I have is when you give that money at a rate of return that is half of what you're paying for. Why would the company not have taken the 20-year debenture at $7 million at the floating rate equivalent to provincial borrowing, adjusted quarterly, which it has done, and then take the other $5 million in another form of debenture that at least repaid the taxpayer the interest cost that it had in taking out that $5 million? Assuming that was done some time last year, we probably paid 13 or 14 percent for the money. Why didn't we take it as a 14 percent debenture, Class B, or whatever you want to call it, and make sure that the taxpayer was repaid exactly what it cost them to borrow that money on behalf of McKenzie Seeds?

The Minister says we are doing this so that the company shouldn't be burdened with previous operating losses; it shouldn't be burdened with having to fund previous operating losses. Well, what does any other company do if it is burdened with previous operating losses? — (Interjection) — Okay, they capitalize them, that is what the member opposite said. But they capitalize them at whatever it cost them to repay that, and if you want to do that, then capitalize it in a form of investment that doesn't cost the taxpayer money. This is costing the taxpayer money and that is all I'm saying.

Other companies faced with the same thing either have to continue to pay interest on their previous losses until they are able to pay down on those previous losses, or else they have to go into receivership, or else they have to issue new shares that somebody is willing to buy. The taxpayer didn't have a choice in this matter, this was a government decision, a government decision that was designed to cover up the inefficient operations during the previous NDP administration that resulted in the accumulated losses that remain as an embarrassment on the books for the company and now they are wiping the slate clean so that they can wash their hands of all of their shoddy operation in the past.

HON. L. EVANS: It is regrettable that the Member for Tuxedo makes such wild statements. You know, if he looks back at the history of the company he will find that this company, unfortunately, suffered losses for many years before anyone in this room was elected to the Manitoba Legislature, including myself. The evidence is there. I would invite him to go back through the years and see the very difficult time that the company experienced, particularly after the death of the late Dr. A.E. McKenzie.

The fact is that although the company was bequeathed in effect to the taxpayers of Manitoba, virtually there was no equity put into it, no capital investment made by the taxpayers of Manitoba. Over the years the company has had some growth, has had to acquire certain additional assets - some of this was done through bank borrowings and, frankly, you had a situation where you had a commercial structure with excessive debt versus equity. There was virtually little if any equity in the company. It is simply not a good business arrangement, it's not good corporate financial structuring to operate in this way. So I think there is a good case to be made and as I have indicated, we have had the advice of various consultants, and indeed the previous government had advice from various consultants.

There is a case to be made for some equity investment, and I say to the Member for Tuxedo that what we are hoping, and I know we are doing, is allowing this company to grow. We have already added jobs in the past year and I hope that there's a possibility, I believe there is a good possibility of adding more jobs. It's a rather refreshing contrast to what is going on in the economy that, whereas you read of bankruptcies across the land, we have at least one company that is growing and adding jobs. In the years ahead, this company will be, even after it pays off its loan, in the position to pay dividends on shares to the people of Manitoba through the MDC.

MR. CHAIRMAN: The Member for Inkster.

MR. D. SCOTT: Thank you, Mr. Chairman. I just would like to jump in for a couple of minutes here to basically point out that no companies in the private sector are totally debt-financed. If you want to put a company into bankruptcy, into receivership, what you do is you totally debt-finance the company. That's not the interest of the Province of Manitoba in relation to McKenzie Seeds.

We, I think, have demonstrated a confidence in the company; a company that has turned itself around dramatically in the past few years; a company that is growing and growing, I might say, at quite a remarkable rate. By refinancing a corporation, as is being done in the private sector almost routinely now - a tremendous number of the companies are refinancing - trying to reduce the debt equity portion, putting an infusion of capital into companies that they have confidence are going to make it through and have a chance of expanding.

Now one of the big problems in the past with Crown corporations was that the Crown unfortunately has almost totally relied on debt financing and put next to no direct capital into the companies whatsoever. By doing that, it's the same if CP was setting up another subsidiary and totally financed it out of debt equity, it would put that company down in no time flat.

If the Crown is going to be serious; it's going to be involved in the marketplace; if it is going to be developing an industry in Manitoba, an industry that's unique in Manitoba, and I would venture to say would not be here were it not for the Crown's interest; that this company if it were sold to private hands would disappear from the Manitoba scene in very, very short order.

We now have a government that I am proud to say has the confidence in the company, has the confidence in its management, which I think is first class, towards a future in developing a strong industry, particularly in Brandon, but it's an industry that has a benefit to the all province. But to cripple it with debt by refinancing it, as the Member for Tuxedo suggested, on a total debt equity basis, I think, would do it no service. It would not give the company's management any more flexibility in the operation of the firm. It would, as a matter of fact, give less flexibility and put them even possibly more at the whims of the world interest markets.

If the government or any corporation has enough confidence in the corporation, it's up to that corporation or that government to invest straight with capital or a combination of debt equity and capital, but for heaven's sakes not to have it just totally debt financed.

I would like to ask a question of - I don't know which gentleman would be best to respond to it, but it's in regard to the loss this year which, I believe, is some $267,000.00. I wonder in dollar terms - we have in the statement here on a percentage term of the amount of revenue lost due to bankruptcies primarily, I believe, in Eastern Canada, about 2 percent of total revenues.

What would that come to in actual dollars? Is it much higher than the loss position that the company was in, or what would the loss would be, or would it be a profit, in fact, if the bankruptcy rate was the same as in previous years?

MR. CHAIRMAN: Mr. Moore.

MR. W. MOORE: Mr. Chairman, the loss through bankruptcies this year is some $210,000.00. Loss in provision for doubtful accounts is a total of some $220,000 more than what it was in the previous year.

MR. D. SCOTT: So the additional loss then is greater or almost as great, I should say, as the total loss in the corporation?

MR. CHAIRMAN: Mr. Moore, I don't know if you got that question.

MR. W. MOORE: Yes, it is almost the same amount as the total loss. There would still have been some loss even if those people had not gone into receivership.

MR. CHAIRMAN: Mr. Minister.

HON. L. EVANS: I just want to add two points to the previous discussion on refinancing to the statement I made. I want to put on the record and remind everyone that the Board that was appointed by the previous Conservative administration is on record, and we can check the minutes, as recommending that this company be refinanced.

No. 2, I would like to put on the record that the consultants hired during the previous Conservative administration recommended a $6 million loan outright without any interest.

MR. CHAIRMAN: The Member for Inkster.

MR. D. SCOTT: The year-end is in October. We are halfway through the new 1983 year. I am wondering if you can give us a bit of an overview as to what your profit picture is looking like for this year. I notice the sales are up quite dramatically. I don't know when this paper was written up, but your forecast in the sales increase of just under $4 million in gross sales up to 16.5 million. I'm wondering what the profit-loss forecast for the company is for October 31 of 1983. If it's too early in the year, I can accept that, but you should have some feeling at the half-way mark, especially with the biggest part of the season, I would think, over with now.

MR. CHAIRMAN: Mr. Moore.

MR. W. MOORE: Mr. Chairman, we do anticipate that this will be a very good year for McKenzie Seeds in the marketplace, and that there will be a substantial profit at year-end. I think the budgeted profit is somewhere around $1.6 million as your budgeted profit. At this moment in time, we see no reason why we're not going to reach that profit level.

The only concern that we have is with the very late spring that has occurred right across the country. That could have an effect on some portion of our sales, probably somewhere in the region of $300,000 if indeed the weather was to continue as it has for the next two or three weeks.

Mr. Chairman, I think it is worth noting that the mail order division, the direct marketing division, which I mention here, has grown dramatically. One of the nice things about direct marketing is that you're not really using borrowed money to operate the direct marketing side of the affairs, because you're paid in advance before you have to pay your expenses or before you have to pay your labour. The only expense you really have is your catalogue. That's an area that we have been trying to develop and we believe have been very successful in developing. It's an area where we are not leaders, or have not in the past been leaders in the Canadian marketplace. However, very quickly we are becoming a very recognizable force in direct marketing in the home horticultural area.

MR. D. SCOTT: If you're forecasting for this year a profit in excess, I'll say, of $1.5 million, that is some five times what is required to be paid back or at least on preferred shares at 6 percent on your $5 million preferred shares, so one has the possibility of paying several times back to the province not only in the dividends here, but also in reduction of long-term debt if one wanted to structure it, if it wasn't being used for expansion in the firm.

MR. W. MOORE: Mr. Chairman, it should be noted that in the provision for that long-term debt, the 20-year amortization is at the end of the 20 years, certainly that $7 million will have been paid back to the Crown from the company. In our opinion, we see no reason why there will not be ample funds at the end of this year to meet our commitments as far as interest and as far as capital is concerned.

MR. D. SCOTT: Thank you very much.

MR. CHAIRMAN: The Member for Turtle Mountain.

MR. B. RANSOM: Thank you, Mr. Chairman. I would first of all like to welcome Mr. Moore back to active duty with A.E. McKenzie Company Ltd. and say that I hope that his losing ways don't carry over into the operation of the company.

A question for the Minister. In terms of identifying the costs, the government clearly is going to be picking up some costs now and providing money to the company. How will those costs be identified in the records of the province?

HON. L. EVANS: Well, the financing is through the Manitoba Development Corporation. I don't know what you're referring to. Are you referring to the convertible preferred shares side? You're surely not referring to the loan side, because we're loaning money to the company at the province's borrowing rate. So I'm not quite sure exactly what you're referring to. Are you referring to, therefore, the 5 million preferred share investment?

MR. B. RANSOM: I am referring to the over $500,000 - I believe the figure was - advantage to the company in reduced interest costs, and it stems, I assume, from money being provided to the corporation at about half the borrowing costs of the government. What I would like to know is, where is that subsidy, if you wish to call it a subsidy, or cost of being an owner, where does that show up in the records of the province?

HON. L. EVANS: Well, it would show up through the MDC because the MDC is the financing agency, remembering again that it is an equity. We're talking about a $5 million equity investment on which we hope to get a long-term return. Remember, we're not only hoping for a return in terms of shares, 6 percent on the preferred shares, but we're looking for an expansion of the company so that you have a growing asset in the long run.

Now, I admit it's a very competitive business. Although we have 80 percent of the market, there is a very great deal of competition out there with regional companies and also with foreign imports, and competition is the name of the game. Of course, it's a very seasonal business as well. So there is plenty of risk, but the company has demonstrated its ability to sustain a large portion of the market, and I believe that it's also evident that the company is growing.

So, as I see this, we have a growing investment; we have a growing asset. Our money being put in is in form of equity; our equity value should expand over the years. So I suppose if you want to look at costs, I suppose you can make some calculation, but you also have to look at the benefits on the other side. Perhaps Mr. Jones would like to elaborate on this.

MR. CHAIRMAN: Mr. Jones.

MR. H. JONES: Certainly, the costs, the differential between the 6 percent and whatever the borrowing rate is, using MDC as a mechanism under Part 2 of the act there, that's the way it will be reflected, the difference between the cost of borrowing the money and the 6 percent. I see no other way they can be reflected other than through MDC.

MR. B. RANSOM: Will that show up specifically as an item in the report of MDC as a cost of investment in A.E. McKenzie; or presumably at some point in time, we would hope that the company would do well enough to give the province a return on the equity and that would then show up, because unless that's the case, of course, the owners of this company really don't know how well it's doing.

MR. H. JONES: Well, I would imagine, Mr. Chairman, that when the Provincial Auditor takes a look at the MDC statement at the end of the next fiscal year, I would assume he would make a footnote reflecting this differential. This is an assumption I'm making, but the arrangement that MDC itself has with the McKenzie financing package in terms of the loan and the investment, frankly, has been developed in as stringent a way as possible, which gives MDC, as the other piece of the Crown, certain rights. For example, there is a convertibility clause on the preferred shares which MDC could exercise if it were deemed necessary, but the kind of stringency built into that package as far as MDC is concerned, we feel confident that we can exercise - and I'll use the word "advisedly" - the kinds of controls that we think are necessary.

MR. B. RANSOM: Maybe the Minister would care to comment and give his view, whether he thinks it's desirable to want to identify that cost.

HON. L. EVANS: Well, you know, it's a matter of value judgment, perhaps. You ask yourself, if you're making a private investment, you have X dollars, you could look at alternative uses for those dollars and you have to make a decision as to whether you will forego interest, let's say, by accumulating a certain amount of interest from a deposit in a bank or trust company, or investment certificates, or whatever, versus putting your monies by way of equity into some growth company, let's say. So you have to make that kind of decision, but I believe that this was a good decision and it's a decision that's confirmed, as I said, by past boards and by past consultants.

MR. B. RANSOM: Mr. Chairman, I'm not questioning the decision. My colleague from Tuxedo dealt with that. All I'm asking the Minister is, how do we identify it? He has said that an individual making an investment would want to know how well that investment was doing, whether he would have been better off to put it into a bank account. In this case, it would be a case of, would the province be better off just not borrowing that money, or putting it in treasury bills?

Does the Minister think that, at least, this amount, this cost, should be identified so that when one looks at the statement of A.E. McKenzie and let's say it shows a profit of $375,000, but on the other hand, there is a cost to the taxpayers of $500,000 of interest that is not being carried by the company but it's being carried by the government, the net effect of that would be a loss, but just to look at the statement would show a profit. So does the Minister think that those costs should be identified somewhere, preferably in this case and in the statement of MDC?

HON. L. EVANS: Yes, I believe we should follow good accounting practices, and if the accounting practice is that they be identified in some particular way in the financial accounts of MDC, so be it. I don't think we should try to fool ourselves. I would say, yes, I would follow normal accounting practices that the MDC would wish to follow; I'm sure.

MR. B. RANSOM: Mr. Chairman, in order that the public would know, perhaps it would be a good idea just to make a note in A.E. McKenzie statements. There are 10 notes to it in the report that's before us. Perhaps it would be wise have Note 11 there that simply told the taxpayer, or the interested person, how much of an interest cost there is to the province that's not reflected in this statement, and then anyone picking up the statement would have the full picture there. Would the Minister agree to have that sort of thing done?

HON. L. EVANS: I think that's a rather unusual type of note. I'm not saying that you shouldn't, or couldn't have that information, but I think that kind of information should be on the MDC statements. I mean, if you put money into a private company that you happen to own, I don't know whether you'd put as a footnote the amount of interest you went without, that you chose to forego, by not putting it in some alternative bank account, let us say. You might have it in some other set of accounts that you have regarding your total finances, but you wouldn't have it, in terms of the monies you placed by way of equity or whatever, in your commercial operation.

I think the appropriate place would be certainly the MDC accounts. I don't think there's any - unless Mr. Jones would like to add to that.

MR. B. RANSOM: Mr. Chairman, this is not the usual way of doing business, of course, through a Crown corporation. If I, as an individual shareholder, make an investment in the company, I am going to know what kind of return that I'm going to get to my money.

Now, in this case, there is only one shareholder and that's the taxpayers of Manitoba, collectively, but there's no way that those taxpayers can know that if the cost is hidden away in the total debt servicing cost of the government, or the debt servicing overall costs of MDC. It seems to make sense to me that the taxpayers have every right to know exactly how well a corporation, such as this, is doing. Hopefully, it will do well, and it doesn't seem to be asking very much to simply have a note to the financial statements, because people could be expected to ask for the statement of A. E. McKenzie, but the general public is certainly not going to be asking at the same time to see the report of MDC, or to see the Public Accounts of the province. So this just would seem to be a simple thing that the Minister could simply come out and say, yes, that's a good idea. We should identify it there and we'll try and do that.

HON. L. EVANS: Mr. Chairman, the Member for Turtle Mountain comes across sounding very reasonable and asking for a very modest note - very modest, honestly. I would point out, in my view, the taxpayers of Manitoba, or anybody else who's interested, can obtain that information very properly and appropriately through the MDC Annual Report.

I'd like to remind the honourable member that when I first became a Minister of government in 1969, that we had a Manitoba Development Corporation that did not make public information on specific companies. As a matter of fact, the Minister was prevented in giving information in the Legislature or in a committee about the investments of MDC. It was totally secret. In fact, we didn't even know that the MDC had put all this money into CFI. It was a big, big secret.

What we did, not only did we say that the MDC shall forthwith abide legislation, we amended the legislation, I think, around 1970, or thereabouts, that it would reveal all the investments. I don't know whether the member heard what I said previously, because he was engaged by someone else, but you know, it was a big, dark secret, until I brought in the legislation - I believe it was 1970 - whereby we stated that the MDC would itemize all of its investments, all of its loan accounts, and all that information would be published, not only annually, but quarterly, and also that the Chairman of the MDC would be required to come before a Legislative Committee and discuss these investments and to answer members' questions. I'm suggesting that we provided ample opportunity for a flow of information as to what the MDC was involved in, and there is a note in last year's statement, assistance granted or to be granted for the year ended March 31, 1982, and a specific reference to McKenzie Seeds. So I'm suggesting that we are providing information that wasn't available, prior to us amending the MDC legislation back about 12 years, or so, ago.

There are many businesses in Manitoba who get all kinds of grants from government - various kinds of grants. They get tax incentives. They get training monies. They get Manpower grants and they have all kinds of other financial aids and various kinds of assistance from government. Should we, as government, then be required to tabulate for each and every company exactly how much we paid to Company "X" or Company "Y" or Company "Z" with regard to various Manpower grants or tax incentives, etc.

Ultimately, there is accounting in the Public Accounts of Manitoba and, as I said, there is plenty of information and plenty of opportunity for that information to be made available through the Manitoba Development Corporation. As I said, Mr. Chairman, this was not always the case during the administration of Walter Weir and the administration of Duff Roblin. Whatever the MDC did was a deep, dark secret and the Chairman of the Board was prevented, by law, and the Minister was prevented, by law, from revealing anything. The taxpayers didn't even know, and the members of the Legislature couldn't even ask, whether MDC or MDF, as it was called at that time, was involved in CFI, or as indeed we found out, it surely was involved in CFI.

So I say, Mr. Chairman, that we've got plenty of opportunity here to provide information on this matter that the member raises.

MR. B. RANSOM: Mr. Chairman, progress has been made over the years in accounting for the resources of government and if the Minister, in the past, was part of progress in being more open and providing reporting of the financial affairs of the province, then I commend him for that. But let's not live in the past. Perhaps the Minister is still capable of making some small further innovative changes to identify these costs and to speak about the private sector, and say perhaps we should be forcing them to do it too.

The members of the New Democratic Party keep wanting to compare the private sector to government operations and they're simply not the same thing. A government doesn't operate in the same way. You can't pretend that they operate in the same way. I certainly would hope that the Minister and the government would identify all costs, grants, etc., that are made to private corporations. We've asked for such information, as a matter of fact, and there has been some hesitation on the part of the government to make some of that information available. But we've been asking for it because we think anyone who gets relief, whether it's interest rate relief, or whatever, from the government, from the taxpayers, that that is information that should be made public.

So this is an issue, Mr. Chairman, that we have been discussing in Public Accounts; we have been discussing it with the Minister in charge of the Crown Investments Department, and we're certainly going to continue to discuss it in the hope that we will get some kind of decision from the government to identify the costs, and in this case, a simple commitment from the Minister would go a long way.

MR. CHAIRMAN: The Member for Tuxedo.

MR. G. FILMON: Mr. Chairman, in view of the Minister's comments about how he, as Minister responsible for MDC, made certain moves that opened up some of the deep, dark secrets of the loans made by MDC, and in view of the fact that this government has said over and over again that it prides itself in being an open government, having its information available to the public; I would think that it would not be unreasonable for the public to be made aware every year - very simply - of what the costs to the public purse are of the $5 million that has been borrowed to invest in the preferred shares of McKenzie Seeds, the 6 percent accumulative preferred shares.

I don't think that that's a big undertaking, and so I would move that the committee request the Board of Directors of McKenzie Seeds to ensure that this item is included as a note to the financial statements every year. That is the borrowing cost to the government for the investment of $5 million in the 6 percent cumulative preferred shares. That's seconded by the Member for Sturgeon Creek.

MR. CHAIRMAN: The Honourable Minister.

HON. L. EVANS: Well, speaking to this, I would suggest that what we want to follow are two principles: No. 1 - normal accounting principles that you'd expect in any corporate operation, any business; No. 2 - you would expect the information to the extent that it could be estimated and be made available, to be made available in an appropriate way. I'm simply saying that information, to the extent that it can be made available and estimated, is and can be made available through the Manitoba Development Corporation. It's not a matter of whether the information is or is not available, it's a matter of doing it in a proper fashion. So I would suggest that we should carry on in a normal commercial way.

As the Member for Turtle Mountain says, it's no great issue in a sense, but I think that we should carry out normal commercial practises. I don't know whether the Chairman of MDC would like to comment on this.

MR. CHAIRMAN: Mr. Jones.

MR. H. JONES: Only to the extent, Mr. Chairman, you know, we'll shortly be dealing with the MDC Report and we do, as we always have had, a schedule of MDC's equity investments.

I would suggest that the next report would include the kind of comment that the member's talking about.

HON. L. EVANS: So, Mr. Chairman, the Chairman of MDC has confirmed what I've just said, that information would be made available and I don't think it's appropriate to put it in the McKenzie Seeds Report.

I don't know how many taxpayers rush out and buy a copy, or rather try to obtain a copy of the financial workings of the company. I suspect that most of the information they get is from newspapers, probably based on statements made by the company to the media, or statements made in the Legislature or in this committee which is more of a general nature.

MR. CHAIRMAN: The Honourable Member for Tuxedo.

MR. G. FILMON: Mr. Chairman, I acknowledge that information can be provided through the Annual Report of the Manitoba Development Corporation. The difficulty is that we don't always - in fact, I think this is perhaps one of the first times that we've had MDC's Report coming at the same time in the same committee meeting. Most of the time they don't; they're considered separately. I think that sometimes, as people go through these various matters, it could be that the Manitoba Development Corporation's Report is considered after McKenzie Seeds. We want to be able to refer to it during the discussion of McKenzie Seeds because it's relevant to being able to understand what the true financial picture is.

Mr. Chairman, I just say that this is a government that has prided itself on freedom of information and on open government, and now they're trying to block the provision of relevant information to the consideration of the financial statements and the annual reports of this company and I say that it goes against their principles. I don't agree with it and I say that the principles that they say they stand for obviously are a sham.

MR. CHAIRMAN: Mr. Moore.

MR. W. MOORE: Mr. Chairman, certainly speaking on behalf of the management and not on behalf of the Board of Directors, but speaking on behalf of the management there would be no concern on our part in providing that information on the statement. Indeed, Mr. Chairman, we would think that would be beneficial because what it will indeed show is that McKenzie's is a very valuable operation. It will show that it is not a drain on the taxpayers of Manitoba, something which we employees of the company are very proud of.

MR. CHAIRMAN: Mr. Minister.

HON. L. EVANS: Okay. Well, Mr. Chairman, in view of the comments of the President, I would say that let's attempt to do this.

I'd like though to make a proviso, I'd like to talk to the Provincial Auditor and also I think we should ask the Board of Directors to consider this. As Mr. Moore has stated, decisions of this kind are often made or should be made by the Board of Directors, but I'll be pleased to bring your suggestion forthwith and I don't think there'll be any problem, so let's accept that we can do that.

MR. G. FILMON: Shall we vote on the motion then, Mr. Chairman?

HON. L. EVANS: No, there's no need to have any motion, Mr. Chairman, because . . .

MR. G. FILMON: There is a motion on the floor, so I'm not about to withdraw it, Mr. Chairman.

MR. CHAIRMAN: Okay, the motion is that the committee requests the Board of Directors and McKenzie Seeds to include, as a note to its annual financial statements, the annual borrowing cost to the government for the investment of $5 million and 6 percent cumulative preferred shares in McKenzie Seeds.

HON. L. EVANS: Mr. Chairman, we're prepared to support that with the proviso that I think it would be a good idea that we have some discussion with the Auditor as to exactly how this is most appropriately done. I think that, you know, we accept it on condition that it suits normal financial accounting and normal commercial practises. It's not a question of not making the information available, it's a matter of doing it properly and correctly.

MR. CHAIRMAN: Mr. Minister, do you wish to move an amendment to the motion?

HON. L. EVANS: Okay, I'll move the amendment. The motion, as I see it, says that the committee requests the Board of Directors of McKenzie Seeds to include as a note to its annual financial statements the annual borrowing cost to the government for the investment of $5 million and 6 percent cumulative preferred shares in McKenzie Seeds. I would move as an amendment, subject to discussion with the Provincial Auditor, with regard to the most suitable way of bringing this about.

MR. CHAIRMAN: Do you want the question on the amendment? Those in favour of the amendment?

MR. CHAIRMAN: The Honourable Member for Inkster on the amendment.

MR. D. SCOTT: Mr. Chairman, I would give notice that I'll vote against both the motion and the amendment, or the motion as amended. I don't think it is normal business practise. I don't think it is a practise befitting to the Crown corporations as a whole to start to get into a process that whenever a capital investment is made in a Crown corporation that from now until the province, whatever happens 50 years down the road, we're going to be accounting in the financial statements of the company itself as well as under the MDC where it is already shown as our financing institution of MDC. It's provided there, to provide it in both places is both redundant. It is an example of us requiring and perhaps the members of the opposition would like to see the same thing done in the private sector of any corporations where there are deferred taxes that they have to show on their accounts normally of what their deferred taxes are, and also what the opportunity costs lost to the Government of Canada, have the Government of Canada show what the deferred taxes and what the opportunity costs lost to the Government of Canada are.

If they want to move in that direction, I could see some justification. But here it's just simply a thing to try and not even key in on, but to disagree in basic fundamentals, that Crown corporations should be financed in any way other than debt financing. The basis to the whole argument is that no government should be allowed to invest directly in capital in a corporation, that it should only be able to do it through debt financing. I think it's a fallacious argument; I think it does nothing but harm the future prospects for Crown corporations. Crown corporations cannot survive anymore than corporations in the private sector can survive on 100 percent debt equity and debt financing. That is the aim, it's what they practised when they were in office, and they are trying to push the same things onto us. I disagree with it out of very fundamental principles. It is not a business practice at all, Mr. Chairman.

MR. CHAIRMAN: I would remind the Member for Inkster and also the other members of the committee that we are discussing the amendment at this time which was proposed by the Minister, the proviso added at the end of the Motion.

The Member for La Verendrye.

MR. R. BANMAN: Thank you, Mr. Chairman. I want to say to the member that just spoke with regards to this particular policy matter. If he believes that capital investment made by the taxpayers of Manitoba, any capital investment, should not be shown as a cost to the taxpayers, I am violently opposed to that. Because what is saying is that he wants to be able to infuse money into different Crown corporations without having to show that it's costing the taxpayer something. All we are asking here is that there is not a hidden subsidy that is hidden in another Crown corporation or somewhere. All we are asking is for a note at the bottom saying, this is what it has cost the taxpayers, and I think the taxpayers and everybody have a right to know that. I think the resolution should pass without any further delay.

MR. CHAIRMAN: The amendment which was proposed by the Minister is that after the words, "cumulative preferred shares in McKenzie Seeds," which were the last words of the Motion, the following, "subject to discussion with the Provincial Auditor with a view to deciding the best way to bring this about and whether this is appropriate," be added.

Those in favour of the amendment. Those against. Amendment carried.

Those in favour of the amended Motion. Those against. Carried.

Any further discussion on the report from McKenzie Seeds?

The Member for Turtle Mountain.

MR. B. RANSOM: Thank you, Mr. Chairman. When the company settled with their employees a salary package, I believe, of something over 13 percent, it seemed at the time to be somewhat out of line with settlements that were being made elsewhere including the public sector. Since that time, the Minister of Finance has advised us that Treasury Board is now providing some guidelines and directives to Crown corporations and agencies to try and keep their settlements more in line with what the government would like to see. Based on the answer given by the Minister of Finance, it was evident that this was one of the settlements that had caused him some concern. I am wondering if the Chairman could give some indication to the committee as to just why a settlement of that magnitude was necessary, because of the implications that flowed from that.

MR. CHAIRMAN: Mr. Moore.

MR. W. MOORE: Mr. Chairman, the figure that the member is referring to, the 13-odd percent, was a figure that was used by Mr. Christophe, the President of the unions. He arrived at the figure by simply turning around and taking all the positions, adding up the old rate and adding up the new rate, without giving any weight to some of the changes that had taken place.

The actual settlement itself worked out to be 9.01 percent was what the additional cost to McKenzie Seeds would have been last year if that settlement had been in effect for the previous 12 months. Part of that increase, 1.3 percent of it or about that - I could provide the committee with the exact figures. I don't have them with me. About 1.3 was to correct the inequity where people, just because they were female, were getting less than males do in exactly the same work of equivalent value. That inequity has over the past four or five contracts - we have been changing it every year. This was the year when it was completely eliminated.

If we took all the payroll in the place and took all the increases, it amounts to something like 8.4 percent for all employees. This was just one union contract.

I do point out that A.E. McKenzie Company Ltd. employees, and I don't take any real pride in pointing this out, are the lowest paid employees in the government in any part of the government service. When you talk percentages, when you get down to the lower-paid people, percentages really don't mean all that much.

MR. B. RANSOM: Percentages do mean quite a bit to the public, to the taxpayers, and to other unions when they are trying to negotiate as well. This is the first time that I have heard anyone question the portrayal of the settlement as being over 13 percent. Certainly the Minister of Finance has never put that forward.

So can Mr. Moore just give us an explanation then of how Mr. Christophe tells his members and the public that they have negotiated a 13 percent increase, and Mr. Moore says, from the company's point of view, that it is a 9. something percent increase?

MR. W. MOORE: Mr. Chairman, I did challenge Mr. Christophe the very next day in the Brandon Sun. If you care to check a copy of the next day's paper, you will see where I challenged him in saying that his figures were not correct. I repeat again, what Mr. Christophe did, he took jobs where there happened to be one person in.

For example, a mechanical supervisor in, say, McKenzie Seeds makes $10, and a university position working for the public sector elsewhere would make something like $14.00. His wages were increased more, say, than the 9 percentage point average that I am talking about, but there were some people who actually only got a 4 percent increase in that wage settlement. Mr. Christophe didn't give any weight to the numbers of people working in positions.

MR. CHAIRMAN: Mr. Minister.

HON. L. EVANS: He didn't use the weighted average. What the President has indicated is the most significant thing, is what was the additional cost to the company. It certainly wasn't that higher figure that was reported by Mr. Christophe.

MR. CHAIRMAN: The Member for Turtle Mountain.

MR. B. RANSOM: Just on another item, I had the impression on going through the plant two or three years ago that, to a layman, it appeared to be - I could say this in a charitable sense, because I really don't know anything about the way a seed company is operated - it appeared to be somewhat of an antiquated system, a lot of manual handling of materials and such.

I have no idea how the business end of it operated, but I see in the statement this year on Page 9 that there is an item for computer development which wasn't in in 1981. Does this indicate now that the company is able to change their system, be more innovative in terms of technology? Maybe we could have some explanation of just what's involved.

MR. W. MOORE: First and foremost, Mr. Chairman, the member is right. The plant is a very labour-intense plant. It is a labour-intense industry world-wide, but we have the most modern packing machines of any seed company anywhere. There is an enormous amount of hand labour has to be done.

Computer development is an area where we have 22,000 retail customers across the country. We now have something like 50,000 active customers in the mail order from a mailing list of some 250,000. We have a cost, for example, of fulfilling a mail order of somewhere in the region of 10 percent labour cost. We believe that as the mail order department grows, we will have to somehow, to use the same facilities, be able to expedite orders through the plant much more speedily. One way to do that is to computerize the catalogue as you see it, and to allow the computer to tell you what order you should be doing your fulfillment for those orders. We see that the 22,000 customers across the country, as they get more products from us, we want to monitor the varieties that they sell and the types of products that are selling in various regions of the country, and be able to respond to that from an inventory point of view to ensure that we have product available to people exactly when they need it. So there's no doubt that in the administration side, we are putting a lot more emphasis on data processing.

MR. B. RANSOM: This item in Note 5 speaks about computer development. Is there a system in place now, given that this report was year ended the 31 of October, 1982? If so, how is it operating? Has the company bought computers?

MR. W. MOORE: That cost, Mr. Chairman, is really for programs and for systems. For example, we've purchased a particular program that would turn around and allow us to project five years ahead what our profit and loss position and cash flow and bank requirements are going to be. That's just one example. All our programming, of course, now that it's becoming a much bigger item, is, of course, included in that development cost.

MR. B. RANSOM: Does the company now have computers in place?

MR. W. MOORE: Yes, it does.

MR. B. RANSOM: There's been some expansion, of course, recently. Does the company have more than one place - operate out of more than one building in Brandon now?

MR. W. MOORE: Yes it does, Mr. Chairman.

MR. B. RANSOM: How many places does it operate out of now?

MR. W. MOORE: Three in Brandon. It has a place in Winnipeg, and it has a place in Vancouver, Edmonton, Calgary, Regina, Saskatoon, Toronto, Montreal, Quebec City and Dartmouth, Nova Scotia.

MR. B. RANSOM: What are the addresses of the other two places where it operates from in Brandon in addition to the main building?

MR. W. MOORE: I'm not sure. One is on Rosser Avenue and one is on Pacific Avenue. I'm not sure of the exact numbers.

MR. B. RANSOM: Are those specific buildings?

MR. W. MOORE: Yes.

MR. B. RANSOM: By names of buildings?

MR. W. MOORE: Yes, Massey-Harrison Building, and what was previously referred to as the Scott National Building.

MR. CHAIRMAN: The Member for Sturgeon Creek.

MR. F. JOHNSTON: Mr. Chairman, the sales figures showing an increase of 3.5, and the statement says that 4.5 million is expected in the direct sales. Are the direct sales the knives and kettles and scales, etc., that are shown in the catalogue?

MR. W. MOORE: By direct sales, I mean everything that's in the catalogue and the retail outlets that we have.

MR. F. JOHNSTON: Then the seeds are on your Mail and Direct Sales Program as well?

MR. W. MOORE: The seeds that are sold through the catalogue are on that direct mail total that I have quoted there.

MR. F. JOHNSTON: So this catalogue right here is the direct sales? It's all direct sales?

MR. W. MOORE: That catalogue is all direct sales. There's another catalogue that's produced in the fall, and there's a retail outlet in Brandon and a retail outlet in Edmonton, all of which are combined into that Direct Sales Program.

MR. F. JOHNSTON: By direct sales, I'm assuming that's to the individual and not a retail outlet. Are we speaking of the same thing?

MR. W. MOORE: By direct sales, I mean where the company sells directly to a consumer either through its retail store or through its catalogue. All the rest of the sales are done through - we are really wholesalers to other people.

MR. F. JOHNSTON: So the direct sales, if it's doubled, it's going to be up $2.2 million, and your sales projected increase is going to be up 3.5, so you're expecting a 1.3 sales increase in your seed business that are sold through your wholesale?

MR. W. MOORE: Seeds and other related products.

MR. F. JOHNSTON: You're six months, to the end of April, through your fiscal year. How do your projections, or how are the projections at the present time, or how is the performance as far as the first six months is concerned regarding the estimates?

MR. W. MOORE: Actually, Mr. Chairman, the sales are better than where the estimates are in the first six months. As I said earlier, the only concern we have is that because of the nature of the business, because so much of the product line, mainly the packet seeds, is on a consignment basis, we have to estimate how much has been sold through the stores, and the late spring could indeed cause us some problems.

MR. F. JOHNSTON: The estimated increase, you're taking into effect the sales of the new company - Pike & Co.- plus an estimated increase for them?

MR. W. MOORE: In actual fact, there won't be any increase for them in the regular packet line. Their increase will come through their mail order business. At the time we took over, they had already really made their plans for the next year. They were in place and we weren't able to influence that, perhaps, in the way we might have liked but, certainly, it does include the sales of Pike & Co.

MR. F. JOHNSTON: Then Pike & Co. will be handling this direct catalogue from now on?

MR. W. MOORE: There is a catalogue with Pike's name on it. It's basically the same catalogue with some changes in the cover and what have you, addresses and that type of thing but, certainly, a Pike catalogue will by the end of this year have produced some $500,000 in sales as against $20,000 last year.

MR. F. JOHNSTON: I didn't follow that. The catalogue - you're speaking of direct sales as far as Pike is concerned now? You expect the increase in sales for Pike to come from the direct sales catalogue?

MR. W. MOORE: That is correct; this year.

MR. F. JOHNSTON: When was the new clock put on the building?

MR. W. MOORE: I don't know the exact date. It was certainly within the past, I guess, two or three months.

MR. F. JOHNSTON: I know that it was recommended quite a while ago. What did the clock cost? The clock that is known as "Big Len" in Brandon.

HON. L. EVANS: It sounds better than "Big Frank."

MR. F. JOHNSTON: Mr. Chairman, I only make the statement because when I'm up at Clear Lake at our cabin on the weekends, everybody talks about the "Big Len" clock on the McKenzie Seed Building, and so I just wonder what it did cost.

MR. W. MOORE: Mr. Chairman, just under $10,000 was the additional cost for the mechanism and installation of the mechanism of the clock. However, it should be remembered that we had an option. It was to take that tar off completely or, indeed, make it useful, and we thought that one way to make it useful was to give it a presence and give McKenzie's a higher profile presence in the community. I guess the big land name that came from a very supportative editorial that was included in the Brandon Sun some time ago.

MR. F. JOHNSTON: Mr. Chairman, I'm well aware of where the recommendation for the clock came from to take care of the tower; it was there when the previous government was there, the recommendation. I just wanted to know the cost of "Big Len," that's all.

MR. CHAIRMAN: Are there further questions or comments?

The Member for La Verendrye.

MR. R. BANMAN: Thank you, Mr. Chairman.

I wonder if Mr. Moore could inform the committee as to what the pricing policy is now with regards to the packets. In the coming year, will there be a fairly large amount of new packets coming out with different pricing on them, or what are we looking at in the whole scene of pricing?

MR. W. MOORE: Well, I'm not sure if you took all our product line what the actual price increase was for the last year, but certainly it's our intention to - and remembering, as the member knows, we have to deal so far ahead. Pricing policy is to keep at least abreast of inflation and of extra costs that the company anticipates.

MR. R. BANMAN: But if my memory serves me right, Mr. Chairman, there are certain periods within a three or four-year framework where a fairly substantial amount of packets are either destroyed or ripped open, and then new prices put on them, or is this now happening on a yearly basis?

MR. W. MOORE: No, Mr. Chairman, that might happen within a yearly basis, the packets are really not recycled at all. It's all fresh packets and fresh seed every year. The only time they would be salvaged would be at a period in time when there is a world crop shortage of certain varieties of seed, we would bring those varieties back and resalvage the seed.

MR. R. BANMAN: Well, this flows into the other question. With regards to the return policy, what is happening now? Are you still using the method that was previously employed where retailers who don't sell their full display will return it to you?

MR. W. MOORE: Yes, Mr. Chairman, The Federal Seed Act really causes seed to be sold on consignment, the way the Act is written. Mind you, that's nothing different than happens in the rest of the world, and the seed is returned to us, and we have a return and destroy policy. Now, that has been in effect for about three years, I think.

MR. R. BANMAN: What percent of your income would then go out on a yearly basis, or what percent of your inventory would go out, having been in either new packets and repriced, reflecting that particular year's pricing policy?

MR. W. MOORE: I'm not sure if I understand the question properly. Is the member asking how much of our product line is out in the marketplace this year, that was also in the marketplace last year?

I don't know exactly what it is, but I would estimate it's not more than maybe 2 percent this year.

MR. R. BANMAN: So, what you're saying then is that the total inventory that you're carrying right now, whatever isn't sold and comes back to you, really will be either destroyed or the packets will be ripped open and the seeds will be put into new packets so that the inventory that you're carrying right now and the evaluation of that inventory becomes sort of a critical thing with regards to next year's policy, right? In other words, let's say we have frost till July, heaven forbid, and that would really impact fairly heavily on the company then?

MR. W. MOORE: If that were to happen, Mr. Chairman, it would impact very heavily, but there has been an historical pattern, as the member will probably remember from his involvement, and the historical pattern has been that while something happens very badly on one part of the country, it doesn't happen in another part. You get a good area and bad area which tends to even things out. This year, as I said before, we were a little concerned with the late spring. Usually we like an early spring and a late frost in the seed business.

MR. R. BANMAN: The 1980 and I believe the 1981 figures showed the company, even though they carried this debt servicing in the black and this year we're looking at a little better than a .25 million loss. Those two previous years, the profits in there, was that mainly due to the sort of extraordinary write-offs that we took on inventory at that time? Remember we had one year where we, I believe, wrote off something like $1.3 million or something in inventory, and then of course sort of almost wiped the slate clean and took a big loss that year. Is that carry-forward one of the reasons for the profits there and the lower loss in 1982?

MR. W. MOORE: No, I don't think it has any material effect on the prior year's operations.

MR. CHAIRMAN: What is the wish of the committee? The Member for Turtle Mountain.

MR. B. RANSOM: Mr. Chairman, Mr. Moore, I believe had said earlier that the company has purchased computers now, or a computer, and have it in place. What would be the cost of that computer and could he give us a little bit of information about what sort of system you've put in.

MR. W. MOORE: It's an IBM system - 38 - as I understand it. Mr. McEachern, our controller is here, and could probably tell you much more about the details of it. It's a leased computer - some of the equipment we have is owned - it's leased with an option to purchase. I'm not sure of the technical names for some of the pieces of equipment, there are many bites or what have you, that the equipment has.

MR. B. RANSOM: Well, I'm not especially interested in the details of it either, Mr. Chairman, but I've had enough experience to know that as companies or government departments have wrestled with the idea of computerizing, that many of them have gotten into difficulties, that there have been excessive costs or their system hasn't done what they expected it to do and so forth. Since the company is just getting into this field now, I was interested in knowing what kind of equipment was in place, and that's find, that's satisfactory, but on whose recommendation was this particular machine selected?

MR. W. MOORE: I'm not sure, we had some outside people turned around and looked at the equipment. We had an IBM 34 prior to that, and we had some outside people, and I can't honestly remember their names - I certainly could provide it to the committee - that were involved with us in computerization for a period of time, and you know the final recommendation came from Mr. McEachern, our controller, and his department, that recommendation to the board at that time.

MR. B. RANSOM: But you had outside people other than IBM, I assume.

MR. W. MOORE: It's a firm of accountants, Price Waterhouse.

MR. B. RANSOM: And is this machine now being leased from IBM?

MR. W. MOORE: No, it's not. Some of the equipment's been leased from IBM and some of it hasn't.

MR. B. RANSOM: Who is it being leased from?

MR. W. MOORE: It's been leased from a company, Vantage Western Data. That really was a better arrangement than we were able to make with IBM.

MR. B. RANSOM: How much business is the company able to do with other companies in Brandon? How much of the supplies can be provided by local companies?

MR. CHAIRMAN: Mr. Moore.

MR. W. MOORE: Quite a bit. For example, I know Leech Printing does somewhere around $100,000 worth of business in Brandon.

Most of our metal displays, not all of them, but most of our simpler metal displays are all made in Brandon.

MR. B. RANSON: What about the packaging work? Where's the art work done and that sort of thing?

MR. W. MOORE: The art work, some of it's done in-house by our own people. The rest of it, the art work, is done in Winnipeg. The head of that department is a chap called Dennis Daly who is a former chairman of the National Design Council.

MR. B. RANSOM: And then are the packages manufactured locally?

MR. W. MOORE: No, they're not. We have had quotes for local package manufacturing. We have had, for example, Superior Envelope and Lawson Graphics have quoted on a couple of occasions, but they've never been able to come close to the price that we're able to get from Ashton Potter in Toronto for printing the packets.

The problem with it is that someone has to provide a picture and art work for the packets, and we don't own very much of our own photography work that's used in the packets. They're leased from an international leasing agency that does that sort of thing.

MR. CHAIRMAN: The Member for La Verendrye.

MR. R. BANMAN: Thank you, Mr. Chairman. Getting back to the inventory, the evaluation of the inventory, was it done the same way in 1982 as in 1981? In other words, were the evaluation standards the same?

MR. W. MOORE: To the best of my knowledge, yes.

MR. R. BANMAN: I notice there's about a $1 million increase in inventory. Is that normal, or in light of you projecting the addition sales, or?

MR. W. MOORE: Mr. Chairman, it's normal because, you know, we were projecting a lot more additional sales. We have the inventory, of course, of the Pike operation and for the increased mail order operation.

MR. R. BANMAN: The $1 million buildup in inventory, is that of concern to the company?

MR. W. MOORE: Well, certainly, inventory control is of a concern to the company, and because it does draw heavily on your cash flow, and so we do monitor it as carefully as we can and we would indeed like to turn around and improve our position.

MR. R. BANMAN: Roughly, what percent of the dealer costs; in other words, the sale of the packet to the dealer, what percent of that would be, let's say, inventory costs? What would your cost figure be?

MR. W. MOORE: In a packet; of the packet itself?

MR. R. BANMAN: On a percentage basis.

MR. W. MOORE: On a percentage basis, of the dealer cost, it would be around 20 percent, or 22 percent, I'm advised.

MR. R. BANMAN: Would the inventory figure represent then roughly that?

MR. W. MOORE: Well, no, that's just - Mr. Chairman, the member asked the question to do with packets only. There are other items, of course, such as grass seed where the cost of inventory is much much higher than the cost of packet seeds as a percentage. It could indeed amount to 60 percent.

MR. R. BANMAN: What percent of that $7 million that was in inventory at the end of 1982 would be packets?

MR. W. MOORE: I'm watching my controller; 60 percent, Mr. Chairman, the controller advises me.

MR. R. BANMAN: My concern with that is, I think, in the past that has been one of the areas where there has, of course, been some questions whether or not the inventory upon liquidation of the company, or on the quick sale of any of the assets, whether or not the inventory is really there to substantiate that particular figure, but I guess that is something that the company is watching. If their policies with regard to the evaluation are the same from year to year, as the manager indicates, then I would imagine that you will be watching the inventory fairly close that it doesn't build up that much higher, because if you're looking at a ratio of sales versus inventory, the increased sales really from year-over-year would not substantiate a $1 million growth in inventory. So I just throw that out and would just flag that and hope that the Board of Directors, as well as management, watch that inventory because that's the tough one.

MR. CHAIRMAN: Does the committee wish to pass the report?

The Member for Turtle Mountain.

MR. B. RANSOM: Just one question. I had asked earlier the cost of the computers. I had assumed that they had been bought. The information was they were leased, but I don't think there was a figure given, either monthly or . . .

MR. W. MOORE: I think I said, Mr. Chairman, that I'm not - like off the top of my head, I don't know what the figure is. I think all together, it's about $8,000 per month. That includes all parts of the equipment.

MR. CHAIRMAN: Pass.

MANITOBA DEVELOPMENT CORPORATION

MR. CHAIRMAN: The committee is now turning its attention to the Report to The Manitoba Development Corporation.

Madam Minister.

HON. M. SMITH: Yes, it gives me pleasure to welcome Hugh Jones, who is the Chairman and General Manager of MDC; Mr. Alec Musgrove, who is the Assistant General Manager; and Mr. Greg Goodwin, the Secretary of MDC. They will present the report.

MR. CHAIRMAN: Mr. Jones.

MR. H. JONES: Just a couple of introductory comments, Mr. Chairman. They're probably repetitive in terms of the previous year's committee meeting, but I do want to reconfirm that under the directive given to MDC in November of 1977, the financing activities are still under suspension. The committee will recognize that does not apply to matters which may come to us under Part 2 of The Development Corporation Act where we act really as an agent for the province.

I also want to reconfirm that the responsibility for the administration and collection of the loans that do remain under Part 1 are still under the jurisdiction of the staff of the Communities Economic Development Fund.

The report before you, we can deal with in detail if you wish. I should just comment that since that report was prepared, five more loans have been repayed in full, so the existing portfolio, the loan portfolio of MDC now consists of 20 loans with a total outstanding amount of about 9.9 million.

The portfolio is current in terms of satisfactory performance of the businesses financed and collection of payments, with the exception of three, and only one of those three is in difficulty which we could describe as serious.

The equity investments that MDC hold are indicated in the report. Of course, the principal ones are Flyer Industries and, subsequently, A.E. McKenzie, but there is still an interest in William Clare (Manitoba), but it's very much of a nominal affair although we are, as we normally do, tabling the reports of William Clare with Flyer Industries.

The William Clare situation will remain outstanding as long as there are royalties due from Houghton-Mifflin in respect to textbooks published.

The Flyer Industry situation is covered completely in that report, which is tabled, and we can deal with that later as we go along.

I referred last year to the receivership situation of Saunders Aircraft. It is still an ongoing one. As I recall my comments last year, Mr. Chairman, I said about four to five months might have been required to complete this issue. Unfortunately, that has not been the case. The receiver in his last report to me indicated to me it could well be another six months before the issue is completely resolved. That's because of litigation which is being prepared in Ontario and which, for obvious reasons, I would prefer not to go into detail about.

The report of assistance granted in this report indicates a guarantee to the Bank of Montreal for A.E. McKenzie of $1 million. The Board will understand that, of course, has subsequently been cancelled in recognition of the refinancing program which we discussed earlier in this committee.

I should be happy to deal with questions, Mr. Chairman, on the MDC Report.

MR. CHAIRMAN: The Member for La Verendrye.

MR. R. BANMAN: My question, Mr. Chairman, would be: The subsidies to the Communities Economic Development Fund, is that the subsidy for looking after the affairs of MDC or could the Chairman explain what that subsidy is?

MR. H. JONES: Mr. Chairman, that is something that has, I think, been going on for two years where, because at one time the common board and the common staff of both agencies and with the kind of income accumulation in MDC itself, there was an agreement, I believe I'm correct in saying in 1980, but I would have to check that, between the Ministers involved, the respective Ministers, that rather than have the Communities Economic Development Fund administration costs dealt with as they were a number of years previously through the Estimates process of Northern Affairs, there was an agreement that MDC would cover the operating deficit of CEDF. I believe there are some discussions going on now that might result in some change in that process.

MR. R. BANMAN: When we're talking about operating deficits, are you talking about losses that are incurred by CEDF?

MR. H. JONES: In essence, yes.

MR. R. BANMAN: You mentioned the Saunders Aircraft problem and that the receiver says another six to eight months. Without getting into the details of that particular litigation that is going on, has it to do with the providing of ongoing parts and service to the existing flying aircraft?

MR. H. JONES: In the main, it does. We mentioned the name at the last committee and I see no reason why we couldn't go into it again. There is a claim by the receiver against Ayre (phonetic) Autonomy of Ontario. It is primarily in relation to what you just described, Mr. Banman.

MR. R. BANMAN: Autonomy has filed against the receiver?

MR. H. JONES: No, the other way around.

MR. R. BANMAN: The other way around. Are there any outstanding monies that we're talking about?

MR. H. JONES: The original claim by the receiver, Mr. Chairman, was for approximately 600,000.00. In the countersuit, that figure is reduced. The receiver has given us an estimate for recovery of about 200,000, but I don't think I should give more detail on that because it's under litigation.

MR. R. BANMAN: What has that receivership cost us already?

MR. H. JONES: Could you give me just a couple of minutes, Mr. Chairman? We've got the figures here.

MR. R. BANMAN: While Mr. Jones is doing that, maybe I could ask the Minister if she could inform the committee whether or not it is the government's intention to reactivate the Manitoba Development Corporation as a lender of last resort.

MR. CHAIRMAN: Madam Minister.

HON. M. SMITH: No.

MR. R. BANMAN: Mr. Chairman, again to the Minister, during the Communities Economic Development Committee hearings, we were told that the Communities Economic Development Committee is now loaning money to anybody throughout the whole province. In other words, that it is no longer an agency geared at helping the Northerners. It will not be loaning money in southern Manitoba. Does the government intend to use that vehicle as a lender of last resort?

HON. M. SMITH: I think that's more appropriately dealt with by the CEDF Board. It's an overall policy. If there is ever any loan made where there isn't direct commercial viability, there would have to be a positive impact on the provincial accounts or on the economy of the province. That would be clearly stated at the time any such action was taken.

MR. R. BANMAN: I guess my concern on this matter, and the Minister is in charge of the Manitoba Development Corporation and I appreciate she's not in charge of CEDF, but if it is the government's intention to use CEDF now as a lender of last resort and not use the Manitoba Development Corporation for reasons that, I guess, are fairly evident because of the problems that the MDC has had over the years and the problems that it has gone through over the last 10, 15 years, is it the government's position that CEDF will not take the place of MDC?

HON. M. SMITH: No.

MR. CHAIRMAN: Mr. Jones.

MR. H. JONES: Mr. Chairman, the receiver manager's fees to date are just over $167,000.00. Clearly there will be more this year as we go on with this case.

MR. CHAIRMAN: The Member for La Verendrye.

MR. R. BANMAN: Thank you. I guess this is the problem that we faced with a number of receiverships, whether it be Thunderbird Lodge or some others. We would have been better off just to scrap everything and sell it to a scrap dealer, and probably would have ended up without having to pay these large legal fees as well as receiver fees. It looks like, in this particular instance, that the birdie will sing for only one person and that's not for the taxpayers, but the other people that are involved in the litigation and the receivership. It's rather unfortunate.

Coming back to the CEDF subsidy, the CEDF subsidy that we're looking at, is there a projection done for '83; in other words, what it is going to cost the Manitoba Development Corporation?

MR. H. JONES: Very approximately, Mr. Chairman, we are estimating 900,000, but it's a very approximate figure I am giving you. As I said earlier, it is possible that we will be directed by the government to change that process.

MR. R. BANMAN: Mr. Chairman, can Mr. Jones tell us what the unused capital authority is with regard to Manitoba Development Corporation?

MR. H. JONES: As at last week, Mr. Chairman, it was just over $31 million - excuse me, if I could just perhaps clarify that - in relation to the guarantees that you see on this report and which you have been aware of from time to time, for example, for Flyer, even with the guarantee which, of course, is a contingent commitment, the capital authority is encumbered to that extent. So the encumbrances have been undertaken and we are left with unexpended just over 31 million.

MR. R. BANMAN: That would mean if the performance guarantees and things that we're talking about will have been subtracted from the figure which is probably around $60 million?

MR. H. JONES: That's correct.

MR. R. BANMAN: Is any of that being used by the CEDF?

MR. H. JONES: No, under no circumstances.

MR. R. BANMAN: So that the authority that CEDF requires in loaning to different enterprises will have to come under capital voted by the Legislature for CEDF?

MR. H. JONES: It's a separate Loan Act.

MR. R. BANMAN: I'll leave that one alone, because I was going to get into CEDF and I realize that we're not here and Mr. Jones isn't wearing that hat this morning.

William Clare (Manitoba) Ltd.

MR. R. BANMAN: With regard to William Clare and a few of the others, do you see any winding down of that at all in the future? In other words, is there any sale for some of the royalties, or will it just be hanging there with all of us keeping our fingers crossed that someday maybe somebody will want to pick it up?

MR. H. JONES: We're still receiving some revenue - well, it's pretty nominal, Mr. Chairman. Last fiscal year, for William Clare, we collected $482 in royalty income. I can't estimate how long it'll take to wind that down, I really can't.

MR. R. BANMAN: Would there be some cash outlays required by William Clare through the MDC to finally wind it down totally? In other words, what I'm getting at, Mr. Chairman, is for obvious reasons, for $400-and-some, if there was a possibility of winding this thing down, so that the MDC didn't have to be bothered with it any more and that we wouldn't have to go through the exercise that we do here every year?

MR. H. JONES: We tried that a year or so ago, Mr. Chairman, and it was not acceptable to people like out in Houghton-Mifflin. It's just one of those things, as you say, it's a nuisance for MDC in terms of administration. There is a very nominal amount that MDC contributes here. The statement, for example, is prepared and audited every year independently. We're talking about $750 last year, but we can make the attempt again, Mr. Chairman, but I really don't think we'd be successful.

MR. R. BANMAN: Is Mr. Jones saying that the statement was just made out by outside - like it cost about $750 to do the whole thing? Is that what he's saying?

MR. H. JONES: That is correct, yes.

MR. R. BANMAN: That's fine.

MR. CHAIRMAN: Do any other members have questions? What is the wish of the committee? Do you wish to pass the report? Pass.

So is the committee agreed that we have at the same time passed the William Clare Report? Pass. Thank you.

Do the members of the committee wish to deal with the report for Flyer Industries at this time? Do we proceed?

SOME HONOURABLE MEMBERS: No.

MR. CHAIRMAN: All right, we will deal with that report when the committee next reconvenes. The date has not yet been set at this time.

Committee rise.